

High Court rules on implied consent in parallel importation case

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In a recent decision, the High Court has confirmed the difficulty parallel importers face in demonstrating the implied consent of a trade mark proprietor to parallel importation, following the ECJ's landmark decision in *Zino Davidoff/Levi Strauss* (joined Cases C-414/99 to C-416/99). On the facts of this case, the fact that the trade mark proprietor either knew or turned a blind eye to the probability that goods sold in Cuba would be imported into the EEA did not amount to an unequivocal demonstration that he had renounced his right to oppose the placing of the goods on the market within the EEA, as required by the ECJ.

In summary, the facts of the case were as follows: Corporacion Habanos SA ("HSA"), was the only Cuban company registered to export Cuban cigars and owned the UK and Community Trade Marks for the main brands of hand-rolled Cuban cigars. HSA was a joint-venture company established under Cuban law, with half its share capital owned by a Spanish company and the other half owned by a Cuban government owned organisation. Cigars for export were supplied directly to overseas distributors with whom HSA had express written licenses. HSA's exclusive distributor in the UK was Hunters & Frankau ("H&F"). HSA also managed the domestic sales of cigars which it sold, via an intermediary, to various domestic outlets in Cuba. Sales of cigars to overseas visitors for export for personal consumption were limited to around \$27,000 per sale.

MasterCigars Direct Limited ("MDL") was in the business of importing cigars into the UK for sale on the wholesale and retail markets. It bought a number of consignments from official outlets in Cuba and imported these into the UK. In 2004, HM Customs and Excise ("HMCE") seized one such consignment following allegations made by H&F that it contained counterfeit cigars. Nine previous consignments had been imported into the UK by MDL.

MDL brought an action against H&F for a declaration that the goods were not counterfeit and as such were not liable for seizure by HMCE under the EU Customs Regulation, and also that the goods were not infringing goods under section 10 of the Trade Marks Act 1994. In response, HSA brought an action against MDL, claiming that it had

imported the seized consignment and the previous consignments without HSA's consent (the parallel importation case) and that the seized consignment contained some counterfeit cigars.

This case raised an important question as to when it should be implied that a trade mark proprietor has consented to the marketing of goods bearing his mark within the EEA, thus testing the landmark decision of the ECJ in the *Davidoff/Levi Strauss* case. However, interesting issues were also raised in relation to the burden of proof in parallel importation proceedings, the circumstances in which goods still under Customs control are deemed to have been imported into the EEA, and when enterprises are to be considered as "economically linked".

1. Burden of proof

It is a general rule that in parallel importation proceedings the burden of proof rests on the alleged infringer to demonstrate that the trade mark proprietor consented to the marketing of the goods bearing his mark in the EEA (although there is an exception to this rule where there is a risk of partitioning of the market). MDL argued that this principle should not be followed in this case as HSA had not complied with its duty to give proper disclosure, therefore to impose the burden of proof upon MDL would breach its right to a fair trial under Art. 6 of the European Convention on Human Rights. The court rejected this argument: although HSA's disclosure had not been wholly satisfactory, it was equally not entirely lacking and some disclosure had been made in relation to HSA's relationships with the retail outlets and the limit in value HSA placed upon individual purchases in Cuba, both issues which were relevant to the issue of consent (see below). The usual burden of proof rules therefore applied.

2. Point at which goods deemed to be imported into the EEA

MDL argued that no infringing act had taken place as the cigars were still under the control of HMCE and no duty had been paid on them, so they still had the status of non-Community goods. They had not therefore been imported into the UK and so the trade marks had not been used in the course of trade in the EEA. The court rejected this argument and confirmed that, under the ECJ's ruling in *Class International BV v Unilever NV* (Case C-405/03), (see "European News" below) goods are to be deemed as having been imported if they are brought into EU customs control for the purposes of putting them on the market in the EEA. It was clear from the facts of the case that the cigars imported by MDL were

destined for the UK market alone, and so MDL could not claim that the cigars had not yet been imported into the EEA.

3. Implied consent of trade mark proprietor

MDL claimed that HSA had impliedly consented to the importation of the consignments into the UK, on the grounds that:

- HSA and the official outlets which sold the consignments were economically linked; and
- The limit set by HSA on the sale of cigars by domestic outlets for the purposes of personal consumption was unfeasibly high, with the result that HSA knew that such consignments were intended to be exported for commercial purposes, and therefore consented to the subsequent commercial disposal.

3.1 Economic linkage

MDL claimed that HSA and the official retail outlets in Cuba which sold the consignment were "economically linked". Its argument was as follows: in a socialist economy such as Cuba, the economic agencies of the state all work together and this is especially true of the tobacco industry. There is no real distinction between domestic commercial enterprises as they are all owned and controlled by the Party and the republic. Therefore, regardless of who owned the outlets, they were de facto totally under the control of HSA, so the consignment of cigars was in fact purchased from HSA.

The Court cited the ECJ's ruling in *IHT v Ideal Standard* (Case C-9/93) that there was economic linkage in the following situations: products put into circulation by the same undertaking, by a licensee, by a parent company, by a subsidiary of the same group or by an exclusive distributor. In all of these situations, the ECJ identified control or the possibility of control over the quality of the products to which the trade mark was affixed, being vested in a single entity.

The Court ultimately held that neither HSA nor the outlets were organs of the Cuban state and that the outlets were not economically linked to HSA within the ECJ's ruling in *IHT*. HSA was 50% owned by Altadis SA, a Spanish company and was run on a commercial basis, and so could not be said to be an organ of the state. In terms of economic linkage between the outlets and HSA, the outlets were not owned or operated by HSA but by one of two other

Cuban companies which were separate legal entities to HSA and entirely independent of it. HSA did enter into a franchise agreement and a tobacco supply agreement with the owner of the outlet in question, but these merely granted the outlet a right to sell in the territory and explicitly provided that the outlet was not the agent or representative of HSA for any purpose. Furthermore, the outlet had no rights in relation to HSA's trade marks other than to sell the products to which the trade marks were affixed and did not therefore exercise any control in relation to the trade marks.

3.2 Export limit

HSA imposed a \$27,000 limit on each individual sale "for personal consumption" by the outlets in Cuba, which equated to a consignment of between 5,000 to 10,000 cigars – an excessive number for personal consumption. MDL argued that this high limit pointed to HSA's consent to the subsequent commercial disposal of the cigars once in the hands of a purchaser, or at least, the turning of a blind eye to the natural consequence of the sale of such a large number of cigars by the retailer in Cuba, and the court agreed with this.

However, the court found that this still did not amount to unequivocal implied consent under the ECJ's decision in *Davidoff/Levi Strauss*, in which it was held that "the consent of a trade mark proprietor to the marketing within the EEA of products bearing that mark which had previously been placed on the market outside the EU by the proprietor or with his consent could be implied where it followed from facts or circumstances, prior to, simultaneous with, or subsequent to, the placing of goods on the market outside the EEA which, in the view of the national court, unequivocally demonstrated that the proprietor had renounced his right to oppose the placing of the goods on the market within the EEA."

Furthermore, the ECJ held that implied consent could not be inferred from the fact that:

- the trade mark proprietor has not communicated to all subsequent purchasers of the goods placed on the market outside the EEA his opposition to marketing within the EEA;
- the goods carry no warning of a prohibition of their being placed on the market within the EEA;
- the trade mark proprietor has transferred the ownership of the goods bearing the trade mark without imposing any contractual reservations; and

- the property right transferred includes, in the absence of such reservations, an unlimited right of resale or at the very least a right to market the goods subsequently within the EEA.

On the facts of the case, the court considered that it was not inevitable that all purchasers in Cuba would buy their full quota or that these consignments would be sold into the EEA, therefore, there was no unequivocal indication that HSA had renounced its right to oppose the placing of the goods on the market within the EEA.

As highlighted by a High Court judge, Mr Justice Laddie, who has been quoted as saying "If you've found a way around Davidoff...I will personally give you a medal", this case highlights the fact that the test of implied consent to goods being put on the market in the EEA set by the *ECJ in Davidoff/Levi Strauss* is extremely difficult to satisfy in practice.

Case: MasterCigars Direct Limited v Hunters & Frankau Limited [2006] EWHC 410